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TAGS: [ECON](#) [EFIN](#) [SOCI](#) [PGOV](#) [LE](#)  
SUBJECT: MGLE01: FORMER FINANCE MINISTER ON LEBANON'S  
DEBT, POLITICAL CREDIBILITY

Classified By: Ambassador Jeffrey Feltman. Reason: Sction 1.4 (b).

SUMMARY

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11. (C) Damianos Kattar, Lebanese Finance Minister during the government of Najib Mikati in 2005, believes that the present government must restore credibility before it can advance economic reform. He estimates that at least USD 15 billion of Lebanon's USD 38 billion national debt derives from insider financial manipulation, Syrian theft, and wasteful or fraudulent contracts. Until the mass of Lebanese people, who had little to do with the accumulation of this debt, receive an explanation, they will not support reform. Kattar advocates a forensic audit of Lebanon's expenditures going back to 1990. Such an audit is necessary to restore government credibility in a country where people are in fact ready to pay reasonable prices for reasonable services. On the strictly political side, Kattar said that no Lebanese government, including the present Hariri majority, can force its will on the rest of the country. Everything in Lebanon has to work by consensus, because so many interests, no matter how small, can use the country's unusual institutions to block whatever the majority might want to do. End Summary.

WHERE DID THE MONEY GO?

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12. (C) On May 25 Charge and Econstaff met with Damianos Kattar, who served to reasonably good reviews as Finance Minister in the 88-day government of Prime Minister Najib Mikti during the first half of 2005. Kattar, in his mid-forties, is now a consultant to a group of investment bankers and divides his time among Geneva, Beirut, and Dubai.

13. (C) Charge asked Kattar if anyone knows how Lebanon accumulated its national debt of USD 38-40 billion. Kattar replied that this is an interesting question that he has been looking into. Charge commented that the Government's recently announced economic reform plan calls for an audit of government expenditures back to 1990. Kattar said that is not really the issue: what is needed is a "forensic" audit. Any audit can simply verify that the government contracted a service, received a bill, and paid it. The necessary "forensic audit," by contrast, would analyze government expenditures in the context of whether the government received fair value for the contracts and expenses that it incurred and eventually paid for.

14. (C) The gap, between what the government has spent and

what it should have received (or to the same effect, what the government should not have spent in the first place), amounts, in Kattar's conservative estimate, to about USD 15 billion of Lebanon's USD 38-40 billion debt.

15. (C) The biggest element of the gap derives, Kattar said, from the government having paid to wealthy insiders above-market interest rates on assets held in Lebanese lira. The beneficiaries of these arrangements could collect the inflated interest rates on Lebanese paper and deposits while knowing (as insiders) that the government would not be devaluing the Lebanese lira against the dollar for some future period. As the government acted, principally in the mid-1990's, to maintain the value of its currency against the dollar but without declaring its policy as such, well-connected figures in the government, and those attached to them, reaped fortunes. Kattar said that four studies he has seen on this issue estimate losses to the government Qcm66. (C) Kattar assumed the most conservative figure of USD 6 billion for losses attributed to above-market interest rate payments. He accounted for the balance of the approximately USD 15 billion gap in unwarranted debt accumulation as follows:

-- USD 2 billion, from the period after the 2002 Paris II Donors' Conference. Commercial banks had given the GOL USD 3.7 billion in interest-free loans for a two year term as their contribution to help the GOL in following up Paris II. When the two year term expired, the Central Bank of Lebanon swapped these bonds for new bonds carrying a ten percent interest rate, when market rates were lower. Kattar said this cost the Treasury an additional USD 2 billion.

-- USD 4 billion, in excess expenditures in southern Lebanon, to redress political tensions, the effects of Israeli occupation, and economic deprivation.

-- USD 1 billion, from unpaid taxes on Syrian workers' earnings in Lebanon.

-- USD 3 billion, comprising Syrian-extracted revenues from the telecom sector, ports, and airports during the occupation.

Beyond these sums, which Kattar acknowledged were only rough estimates, Kattar reminded us how the GOL has a long record of contracting for services and purchases in corrupt and non-transparent fashions. The extent of these losses, and their impact on debt accumulation, can only be guessed at. (Note: We offer as an example a report from the head of an engineering firm which now has the municipal contract to clean Beirut's sewer and underground culverts. He told us that he won the contract with a bid 60 percent below that of the company that had the contract for the previous five years, and he is still making a 40 percent profit margin. End note.)

#### NEED FOR CREDIBILITY

17. (C) Kattar said that, endless stories of corruption and kickbacks aside, what the government must do, if it wants to win support for economic reform, is establish credibility. The masses of Lebanese people are aware of the country's staggering debt, and many resent that they themselves gained no benefits during the accumulation of the debt. Now, they are being asked to tighten their belts to redress a situation that they see of other people's making. Still, Kattar said, people in the street are willing to pay higher VAT taxes, and even high telecom charges, if they believe that there is a reasonable relationship between what they are being asked to pay and what they are getting. Kattar argued that at this point, the government needs to talk forthrightly about its accumulated debt if people are going to accept measures to reduce the deficit. The government's case, he said, will be all the tougher because the government includes senior figures (notably PM Siniora and Central Bank Governor

Riad Salame) who had senior financial responsibilities while the greater part of the debt was being run up. Kattar had complimentary words for current Finance Minister Jihad Azour, whom he said was the first Maronite minister not to start off in office by criticizing his predecessor. (Comment: At least not publicly. Privately, he should us how Kattar, upon ending his tenure, had carefully re-arranged the brass plate names of all Ministers of Finance, so that Kattar's name would rest at the top of a column rather than be near the floor. End comment.) He said that Azour has done an excellent job in modernizing the Finance Ministry, but may not have the salesmanship skills to market the reform program.

¶18. (C) Kattar had some other ideas on moving the financial situation forward. He suggested going back to the Arab League which had pledged but never paid USD 2 billion at the time of the 1989 Taif Accord. At the Fireidns of Lebanon Conference in Washington, he said, there were pledges of about USD 3 billion. Privatization of state enterprises will bring in cash. He advocated setting up a Lebanese diaspora fund called "Lebanon Hope" in which shares would be sold for modest amounts. Finally, he said, the Lebanese Armed Force's brass-heavy retired officer corps, with its generous benefits, is a serious burden on the country's finances. In the years to come, the military should cut well back on the numbers of its officers in order to save heavy future pension burdens. The money saved on the officer corps, he said, should be put to use in training Lebanese teachers and judges.

#### POLITICAL CONSENSUS

¶19. (C) Kattar said that outsiders should look at the Lebanese political system as operating only by consensus, and not by majority rule regardless of how the party affiliations in Parliament may add up. He characterized the Sunnis and the Shia as the two indispensable engines on either wing of an airplane with, in theory, the Christians as the pilot and Druse as the co-pilot. During the Syrian occupation, the Alawites had acted as the pilot. But now that the Syrians

have left, there really is no pilot, given the compromised status of Emile Lahoud. Among other issues, Lebanon needs to regain its political footing by finding a Christian president who is endorsed by the Maronite Church, and accepted by all communities. He said an old proverb is especially apt right now: "Lebanon without Christians has no meaning, and Lebanon without Muslims has no future."

¶10. (C) Kattar then argued that the "airplane" cannot fly well with just one engine; both Sunni and Shia cooperation are needed for the country to move forward. Accordingly, no Parliamentary majority should think that it can impose its will, through numbers, on those outside the majority. The reason, he said, is that Lebanon's political institutions are of such a nature that even modest minorities can block effectively the actions that a large majority may wish to take.

#### COMMENT

¶11. (C) Former PM Najib Mikati told us that he had made two mistakes in setting up his short-lived "cabinet of technocrats," which was largely well-regarded and oversaw an important transition during a turbulent period. The two mistakes: Minister of Labor Trad Hamadeh (who still occupies that position, thanks to his fealty to Hizballah), and Minister of Finance Kattar. Kattar, Mikati said, was smart, but also lazy and vain, more interested in hearing himself speak than in getting anything done. But often what Kattar had to say was worth listening to, and we find him more useful as an analyst who is no longer responsible for making the Ministry work. Kattar may be right in that Lebanon must now operate by consensus rather than majority/minority rule -- that is certainly how the system works in practice

(despite the clear constitutional provisions for majority and super-majority voting on many issues). But, in the long run, a better system would be one based on multi-confessional parties in which all sects have reasonable representation, where a majority vote would not allow one confessional group to claim discrimination, as is currently the case.

FELTMAN